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2012

# Speech of Government Budget for the year 2012-2013

Tanzania, United Republic

Ministry of Finance and Planning

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**SPEECH BY THE MINISTER FOR FINANCE HON. DR. WILLIAM AUGUSTAO  
MGIMWA (MP.), INTRODUCING TO THE NATIONAL ASSEMBLY,  
THE ESTIMATES OF GOVERNMENT REVENUE AND EXPENDITURE  
FOR THE FISCAL YEAR 2012/2013**

**INTRODUCTION:**

1. *Madam Speaker*, I beg to move that this esteemed House now resolves to debate and approve Government proposals for Revenue and Expenditure estimates for Fiscal Year 2012/13. Together with this speech, there are four volumes of books which provide detailed explanation of the budget estimates: volume **one** presents revenue estimates; volume **two** describes recurrent expenditure estimates for Ministries, and Government independent Departments while volume three provides recurrent expenditure estimates for Regions and Local Government Authorities, and volume **four** presents development expenditure estimates for Ministries, Government independent Departments, Regions and Local Government Authorities. In addition, there is a Finance Bill of the year 2012 which is part of this budget.

2. *Madam Speaker*, allow me at the outset, to take this opportunity to express my sincere gratitude to His Excellency Dr. Jakaya Mrisho Kikwete, the President of the United Republic of Tanzania for having confidence in me by appointing me to be the Minister for Finance. I commit to undertake the responsibilities conferred on me with full dedication and faithfulness .:

3. *Madam Speaker*, I wish to congratulate the following for having been appointed by His Excellency the President to be Ministers as follows: Hon. Prof. Sospeter Mwijarubi Muhongo (MP), Hon. Eng. Christopher Kajoro Chiza (MP), Hon. Dr. Harrison George Mwakycmbc (MP), I-Ion. Dr. Fenella Ephraim Mukangara (MP), I-Ion. Amb. Khamis Sued Kagasheki (MP), and I-Ion. Dr. Abdallah Omari Kigoda (MP). Further, I would like to congratulate the following for being appointed to be Deputy Ministers in various Ministries: Hon. Janet Zebedayo Mbene (MP), I-Ion. Saada Mkuya Salum (MP), Hon. Dr. Seif Suleiman Rashid (MP), I-Ion. George Boniface Simbachawene (MP), Hon. January Yusuf Makamba (MP), Hon. Dr. Charles John Tizeba (MP), I-Ion. Amos Gabriel Makalla (MP), Hon. Angela Jasmine Kairuki (MP), Hon. Stephen Julius Maselle (MP) and Hon. Eng. Dr. Binilith Satano Mahenge (MP). I also congratulate Hon. James Mbatia (MP) for being appointed by His Excellency the President to be a Member of Parliament.

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4: *Madam Speaker*, Further, I wish to congratulate Hon. Alhaji Adam Kimbisa (MP), Hon. Shy Rose Banji (MP), Hon. Abdulah Alli Hassan Mwinyi (MP), Hon. Charles Makongoro Nyerere (MP), Hon. Dr. Twaha Issa Taslima (MP), Hon. Nderkindo Perpetua Kessy (MP), Hon. Bernard Musomi Murunya (MP), Hon. Anjela

Charles Kizigha (MP) and Hon. Maryam Ussi Yahaya (MP) who have been elected to represent us in the East African Legislative Assembly. It is my belief that they will ably represent us for the benefit of our nation.

5. *Madam Speaker*, the preparation of this budget involved various stakeholders and Institutions. I would like to thank those who have contributed in one way or another to the successful preparation of this budget. I would like in a special way to thank the Parliamentary Finance and Economic Affairs Committee under the chairmanship of Hon. Andrew John Chenge, Member of Parliament for Bariadi West, together with other Parliamentary Sectoral Committees of for their constructive advice during the scrutinization of the proposals of this budget. Likewise, I thank all Honorable Members of Parliament for their advice and recommendations that have been taken into consideration in this budget.

6. *Madam Speaker*, I am grateful to Hon. Stephen Wasira (MP), Minister of State in the President's Office, responsible for Co-ordination for his cooperation during the preparation of this budget. Further, I would like to thank the Deputy Ministers for Finance, Hon. Janct Zebedayo Mbcne (MP) and Hon. Saada Mkuya Salum (MP) for their support. I thank the Permanent Secretary, Mr. Rarn adhani M. Khijjah, Deputy Permanent Secretaries, Mr. Laston T. Msongole, Dr. Servacius B. Likwelile and Mrs. Elizabeth Nyam bibo for their immense contribution in the preparation of this budget. Moreover, I would like to thank Prof. Bcnno Ndulu, Governor of the Bank of Tanzania; Dr. Phillip Mpango, Executive Secretary in the President's Office - Planning Commission; *Mi.* Harry Kitilya, Commissioner General of the Tanzania Revenue Authority and Dr. Albina Chuwa, Director General of the National Bureau of Statistics. I would also like to thank the Attorney General's Office for the timely preparation of the 2012 Finance Bill and various related documents which are integral part of this budget.

7. *Madam Speaker*, I would like to express my gratitude to the Heads of Departments and the Heads of Institutions that are under the Ministry of Finance and all members of staff of the Ministry of Finance for their cooperation. I would also like to thank the Government Printer for the timely publication of this budget. Finally, I am indebted to the experts and all those who made professional proposals regarding policies, strategies and tax related measures which, to a large extent, have been taken on board in the preparation of this budget.

8. *Madam Speaker*, Tanzania was the host of the 2012 Annual Meetings of the Board of Governors of the African Development Bank which took place from 28<sup>th</sup> May - 2nd June 2012 and were officially opened by His Excellency Dr. Jakaya Mrisho Kikwete, the President of the United Republic of Tanzania. The Meetings were held successfully at the Arusha International Conference Center and were attended by 2,350 delegates from within and outside Tanzania.

The meetings provided an opportunity for marketing Tanzania's economic potentials, Moreover, IOCHI participants from the private sector had the opportunity of getting a better understanding of the operations of the AO)B and how to access financing facilities of the AO) 13 Bank. I would like to urge the private sector to make good use of the opportunities offered by the African Development Bank. .

**9. Madam Speaker,** the 2012/13 budget aims at addressing the economic challenges facing the economy, including; increasing the opportunities for economic growth, increase availability of food in the country, reducing inflation and strengthening revenue collection and management of expenditure, employment creation especially for the youth, investing in energy infrastructure specifically construction of the gas pipeline from Mtwara to Dar es Salaam, roads, ports and railways in order to reduce the cost of doing business and increase productivity; as well as payment of domestic and external debts.

## **REVIEW OF FISCAL POLICY IMPLEMENTATION FOR 2011/12**

**10. Madam Speaker,** the budget frame for 2011/12 was a continuation of Government efforts to achieve the objectives of the Tanzania Development Vision 2025. Moreover, the budget emphasis was on the implementation of priorities of the first Five Year Development Plan (2011 - 2015/16); The National Strategy for Growth and Reduction Poverty Phase II (MKUKUTA II); The Millennium Development Goals (MDGs) 2015; the Joint Assistance Strategy for Tanzania (JAST); National Debt Strategy; together with strengthening Tax Administration and the National Debt Strategy and Public Expenditure Management.

**11. Madam Speaker,** the basis and objectives of the budget for year 2011/12 aimed at achieving the Government's goals of addressing the challenges of mitigating the high cost of living for citizens; continued with efforts to strengthen domestic revenue collection mechanism; creating conducive investment climate for attracting local and foreign investments; to develop the private sector in order to widen the tax base; to finalize the preparations of the national identity cards project; to allocate resources and implement projects in areas that stimulate economic growth.

**12. Madam Speaker,** other areas that were taken into consideration in the 2011/12 budget included the need to: implement specific plans and strategies that foster economic growth; mobilization of concessional and non-concessional loans; speeding-up the implementation of Public Private Partnership Act to widen opportunities for executing development projects; Housing and Population Census 2012; establishment of postal codes and address system and the implementation of Formalization of the Informal Sector Programme

popularly known as MKURAI3ITA; ensure that revenues from retention schemes are collected accordingly and remitted to the Consolidated Fund Services (CFS); as well as sustaining the achievements in the social sectors, particularly education and health which have experienced great expansion and improvement of services.

## **MEASURES FOR IMPLEMENTATION OF THE BUDGET FOR YEAR 2012/13**

### **MITIGATION OF HIGH COST OF LIVING**

*13. Madam Speaker,* in the implementation of the Budget for year 2011/12, the Government took various measures aimed at addressing the challenges facing citizens with a view to mitigating high cost of living caused by the increase of price of goods and services. Measures taken included revising the calculation methods of prices for petroleum products and publishing monthly indicative prices; including introduction of the bulk procurement system for petroleum products. These measures have reduced the pace of increase in prices of petroleum products in the country.

*14. Madam Speaker,* the Government spent shillings 296 billion to implement the Emergency Power Plan to address the problem of shortage of electricity by using leased power generating plants. Also, the Government spent United States Dollars (US Dollars) 183 million to finance the construction of a 100 MW power generating plant in Dar es Salaam and a 60 MW plant in Mwanza. Construction of the Dar es Salaam plant has been completed; and is being tested at the moment. The Mwanza plant is still under construction.

*15. Madam Speaker,* the Government spent shillings 27 billion to finance the purchase and distribution of 120,000 tons of maize to the market in order to mitigate food shortages in some areas. Moreover, the Government issued permits for importation of 200,000 tons of sugar without paying import duty in order to address the shortage of sugar and price increases. Furthermore, the Government raised the interest rate charged by the Central Bank to financial institutions from 7.58 percent to 12.58 percent. In addition, the Government raised the rate of deposits which the commercial Banks are Obligated to keep with the Central Bank from 20 percent to 30 percent. These measures have helped to control inflation.

### **ECONOMIC EMPOWERMENT AND EMPLOYMENT CREATION**

*16. Madam Speaker,* in order to address the problem of unemployment, the Government has taken various measures to create employment.

17. These measures include improving the policy and legal environment to facilitate the growth of private sector, to expand financial services, including recapitalization of the Tanzania Investment Bank, Tanzania Women's Bank, Tanzania Postal Bank, and Twiga BankCorp; and facilitating the establishing the Mortgage and Lease Financing Company. Other measures taken included implementation of construction of infrastructure projects, specifically roads, electricity, agriculture and telecommunication and to empower people through various empowerment programmes. Moreover, several other institutions contributed to employment creation. These include TASAF, SELF, Small Industries Development Organization (SIDO), Community Banks and Guarantee Schemes managed by the Bank of Tanzania. In the year **2011/12**, the Government employed 25,000 primary and secondary school teachers, 4,499 agricultural and livestock extension officers and 4,499 medical specialists in the health sector.

18. *Madam Speaker*, the Government continued with efforts to reduce the bureaucracy in clearance of goods from the port by introducing an electronic system for submission of relevant import documents prior to the arrival of goods. This arrangement is aimed at reducing congestion of cargo and loss of documents and has resulted in significant reduction in time spent as well as importation and exportation costs. The Government has also reduced the number of road blocks within the country from 50 to 15, with the exception of weighbridge and customs transit points.

## **IMPROVING DOMESTIC REVENUE COLLECTION SYSTEM REVENUE POLICIES**

19. *Madam Speaker*, in the year 2011/12, the Government continued with reforms in the system for collecting domestic revenues from tax and non tax sources by taking administrative and policy measures, including changing tax rates and amending tax laws.

20. *Madam Speaker*, the Government amended the Value Added Tax Act, CAP 148 in order to improve productivity in agriculture, livestock, trade and tourism sectors. The amendments included exempting Value Added Tax (VAT) on spare parts for agricultural implements and machinery, poultry feeds, yarn for weaving fishnets; along with introduction of tax refunds on goods bought locally by departing non-residents.

21. *Madam Speaker*, the Government abolished exemption of Value Added Tax on sale and lease of residential houses owned by National Housing Corporation (NBC) and tax relief on Non Governmental Organizations except for equipments donated to orphanage centres and schools.

22. *Madam Speaker*, the Government also amended the Income Tax Act, CAP 332 by abolishing the withholding tax on transportation of fish exports. This was done to encourage use of transportation services for fish products originating from within the country instead of doing so through neighbouring countries. Moreover, amendments were made to The Excise (Management and Tariff) Act, CAP 147 by reducing excise duty on Heavy Fuel Oils (I-IFO) used by industrial plants and machinery in order to reduce the production costs.

23. Madam Speaker, the Roads and Fuels Tolls Act, CAP 220 was amended by granting exemption of toll imposed on fuel on bunkering services and other equipments used in the exploration of gas and petroleum in order to reduce the costs. Moreover, the East African Community Customs Management Act 2004, was amended following the ratification. by Ministers for Finance of Member States to make various amendments with a view to develop the industrial, transportation, livestock, trade and tourism sectors. In addition, the amendments were also aimed at improving community health and to strengthen protection and safety of

citizen and their properties.

24. *Madam Speaker*, other measures taken included motivating and ensuring that Electronic Fiscal Devices are used effectively, strengthening administration of tax blocks, increasing the number of tax payers service and payment centres, updating tax payment systems, improving the valuation system and strengthening tax audit on tax payers accounts.

## **TREND OF REVENUE COLLECTIONS**

25. *Madam Speaker*, in the financial year 2011/12, the Government planned to raise funds amounting to shillings 13,525.9 billion from different sources and spend the same amount for recurrent and development expenditures. The revenue sources were as follows: domestic revenue was estimated to reach shillings 6,775.9 billion; revenue from Local Governments was estimated to reach shillings 350.5 billion; budget support grants and loans for development project and sector basket funds was estimated to reach shillings 3,054.1 billion; domestic and foreign non-concessional loans were estimated at shillings 1,664.9 billion; the rollover of matured treasury bills and bonds was estimated at shillings 810.9 billion.

26. *Madam Speaker*, with regard to domestic revenues, including revenues from Local Authorities, the collection up to April 2012 reached shillings 5,684.5 billion. This amount is equivalent to 80 percent of estimates of collecting shillings 7,126.4 billion for year 2011/12.

27. *Madam Speaker*, collection from taxes reached shillings 5,227.5 billion equivalent to 84 percent of the target of collecting shillings 6,228.5 billion. On the basis of tax revenue collection trends during the first ten months of year 2011/12, by the end of year 2011/12 the Government expects to collect a total of shillings 6,307.8 and hence meeting the target.

28. *Madam Speaker*, non-tax revenue reached shillings 451.6 billion which is 83 percent of the annual target to collect 547.1. Based on this trend, the Government is optimistic to meet the planned target by June, 2012.

29. *Madam Speaker*, revenue from Local Governments reached shillings 143 billion, equivalent to 40.8 percent of the target to collect shillings 350.5 billion per annum. Up to June 2012, the Government expects to collect a total of shillings 200 billion from this source, which is 57 percent of the annual target. The target is not likely to be achieved because of the delays in starting the implementation of the imposition of business licence fees.

## **DOMESTIC LOANS**

30. *Madam Speaker*, in the period between July 2011 and April 2012, the Government borrowed shillings 526 billion to pay for the rollover of matured treasury bonds which is 64 percent of the annual target of borrowing shillings 819.1 billion. Moreover, the Government planned to borrow shillings 393.4 billion, equivalent to one percent of Gross Domestic Product (GDP) to finance development projects. Up to April, 2012 the Government had borrowed shillings 232.6, equivalent to 59 percent of annual estimates.

## **EXTERNAL NON CONCESSIONAL LOANS**

31. *Madam Speaker*, in year 201/12 the Government estimated to raise United States Dollars (US Dollars) 822 million, equivalent to shillings 1,271.6 billion from non-concessional loans. During the period between July 2011 and April 2012, the Government signed a loan agreement for US Dollars 320 million with Standard Bank of South Africa. Up to March 2012, a total of US Dollars 229 million had been spent on payment of roads construction arrears for financial year 2010/11. Moreover, the Government signed a loan agreement worth Euros 61 million with HSBC Bank to finance the power generation plant with capacity of 60 Megawatts (MW) at Nyakato Mwanza. The Government has also signed a loan agreement worth US Dollars 350 million with Credit Suisse Bank of United Kingdom. US Dollars 200 million was received in early June 2012. The balance of US Dollars 150 million will be made available for spending in Financial year 20 12/ 13.



32. *Madam Speaker*) the Government has secured a Consultant who will advise the country in the preparations for Sovereign Credit Rating. These preparations will enable the country to be evaluated and are expected to be completed by early 2013. The completion of this exercise is expected to boost confidence of Lenders and hence enable the Government to access loans with less stringent conditionalities and on a timely basis.

## **EXPENDITURE POLICIES**

33. *Madam Speaker*, in the year 2011/12, the Government continued to implement expenditure policies based upon availability of domestic revenues, grants together with domestic and external loans. Moreover, the Government continued to improve management and control of public funds, including controls in the payments of salaries, expenditure in development projects and subsidy on agricultural inputs, public procurement and to continue controlling the accumulation of arrears. The Government has prepared a strategy for paying and controlling debts arising from accumulation of arrears for employees; contractors; suppliers; and other debts. The debts will be paid after verification by the Internal Auditor General.

## **THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME**

34. *Madam Speaker*, the Government continued with implementation of the Public Financial Management Reform Programme (PFMRP) in the Central and Local Governments. In the implementation of the Programme, the Government has installed the IFMS system in 133 Local Government Authorities. Moreover, the Government conducted training on the interbank settlement system to employees in the Accounting cadres from 20 Regions, Sub-Treasuries, Office of the Parliament, Prime Minister's Office - Regional Administration and Local Government (PMO - RALG) and the Office of Registrar of Co-operatives. Also the Government conducted training to Accountants from Ministries, Independent Departments and 32 Embassies on the preparation of Government's financial statements in accordance with International Public Sector Accounting Standards (IPAS) on accrual basis.

35. *Madam Speaker*, as a result of these reforms, the financial management in Ministries, Independent Departments, Region, Institutions and Local Governments Authorities has continued to improve. This situation manifests itself in the report of the Controller and Auditor General for the year 2010/11, in which unqualified audit reports for Ministries, Independent Department and Regional Secretariat has improved from 71 percent to 85 percent. While the qualified report have dropped 64 percent in year 2009/10 to 56 percent in year 2011/ 12.

36. *Madam Speaker*, For our Diplomatic Missions abroad, unqualified Audit reports have increased from 71 percent in 2009/10 to 85 percent in 2010/11 and there were no qualified

reports in 2010/11. In the Local Authorities, unqualified audit reports have increased from 49 percent in 2009/10 to 54 percent in 2010/11 and qualified reports decreased from 64 percent in 2009/10 to 56 percent in 2010/11.

37. *Madam Speaker*, in the year 2011/12, the Government opened six bank accounts for each Local Authority for their operations. These accounts are for revenues; deposits; recurrent expenditure; salaries; development; and Road Fund. The aim of this measure is to reduce operational costs, unnecessary bureaucracy in use of funds, difficulties in reporting, accumulation of unspent funds and control of unauthorized expenditures.

### **TRENDS IN EXPENDITURE**

38. *Madam Speaker*, on the side of expenditure in the year 2011/ 12, the Government estimated to spend a total of shillings 13,525.9 billion; shillings 8,600.3 billion were allocated for recurrent expenditure and shillings 4924.6 billion for development expenditure.

### **RECURRENT EXPENDITURE**

39. *Madam Speaker*, during the period between July, 2011 to April 2012, recurrent expenditure reached shillings 7,349.8 billion, equivalent to 85.5 percent of the annual estimates as per exchequer releases. Out of that amount, payment of salaries to Government employees, Regional Secretariats, Local Government Authorities, Public institutions and Parastatals was shillings 2,760.5 billion equivalent to 84.4 percent of the annual target of shillings 3,270.3 billion. Interest payment on domestic and external loans was shillings 308.7 billion per annum. The payment of external loans was shillings 57.3 billion equivalent to 85.7 percent of annual estimates. The Government spent shillings 526 billion on paying for matured short term treasury bonds and bills. The Government has continued to accord priority to repayment of debts to avoid accumulation of interest.

40. *Madam Speaker*, Other Charges for Ministries, Independent Government Department and Agencies, Regions and Local Authorities reached shillings 2,384.9 billion which is 72.8 percent of annual estimates of shillings 3,275.1 billion. Out of Other Charges, shillings 284.1 billion was spent on higher education loans which is 89 percent of the annual budget of shillings 317.4 billion. This benefited 93,176 students. Furthermore, the Government paid a total of shillings 44.0 billion as claims for primary and secondary school teachers as verified by the Internal Auditors General.

## **DEVELOPMENT EXPENDITURE**

41. *Madam Speaker*, regarding development expenditure, shillings 2,657.2 were spent on financing development projects compared with annual estimates of shillings 4,924.6 billion. Local funds were shillings 1,201.6 billion compared with annual estimates of shillings 1,871.5 billion equivalent to 64.2 percents. This shortfall is a result of delays in securing on time external non concessional loans. A total of shillings 663.8 billion was spent to finance infrastructural projects, out of which shillings 296 billion was spent on electricity projects and shillings 367.8 billion was spent on roads' projects. The component of development expenditure that was financed by foreign funds was shillings 1,450.4 or 47 percent of the annual target of shillings 3,054.1 billion.

## **NATIONAL IDENTITY CARDS AND PHYSICAL ADDRESSES**

42. *Madam Speaker*, the Government has continued with its plan to implement the National Identity project, which among other things, will help in making available various services including financial services. The project is being implemented in tandem with the introduction of physical addresses. Such Identities will be issued for Zanzibar and Dar es Salaam region in the first quarter of 2012/ 13.

## **POPULATION AND HOUSING CENSUS AND POVERTY SURVEY**

43. *Madam Speaker*, recognizing the importance of Population and Housing Census, the Government continued to fund the preparation stage, whose implementation has reached 95 percent. Up to now, the Government has already spent Tshs. 23.6 billion on the preparations. The Census is planned to take place on 26 August 2012. Also, the Government will continue to fund the Household Income and Expenditure Survey. The Survey started in October 2011 and is expected to end in September 2012, and the report is expected in July 2013. This survey will give a clear picture of the status of poverty, especially income poverty from the year 2007 to 2012. This will assist in identifying the income poverty trend and the reasons for such trend.

## **NATIONAL STRATEGY FOR GROWTH AND REDUCTION OF POVERTY-MKUKUTA II**

44. *Madam Speaker*, During 2011/ 12, the Government continued with the implementation of MKUKUTA II, which focuses on three clusters: Growth for Reduction of Income Poverty,

Quality of Life and Social well-being, and Governance and Accountability in line with the Millennium Development Goals 2015.

Various sectors through their policies, strategies and programmes contribute towards the achievement of desired outcomes. Thus, the implementation of MKUKUTA II requires the collaboration of different sectors both at the planning and implementation stages.

**45. Madam Speaker,** MKUKUTA provides a coordination framework for rallying Government and other stakeholders efforts in the fight against poverty. Poverty is multidimensional, covering both income and non-income dimensions. It is true that income poverty has been declining marginally, However, the Government is taking various measures to reverse the situation, including creating enabling environment for people's engagement in production activities as well as investing in education, health, infrastructure, and financial sector.

**46. Madam Speaker,** overall, the economic performance is relatively positive, showing resilience amidst the global economic shocks. During 2011, the Tanzania economy recorded a growth rate of 6.4 percent compared with 7.0 recorded in 2010. Per capita income increased to 869,436 compared with shs. 770,464 in 2010. On average, the increase in per capita income has improved purchasing power of people in particular the poor, as a result, access and ownership of assets such as quality houses, mobile phones, motorcycles, and bicycles has increased significantly.

**47. Madam Speaker)** During the period under review) the Government continued with the implementation of various programmes with the view to improving the quality of life and social well being of Tanzanians. The implementation of these programmes has shown positive results in the the sectors of education, health and water. In the education sector, the enrollment and completion rates have improved significantly at all levels of education. For instance, the net enrolment rate for primary and secondary schools were 94 and 35 percent in **2011** respectively. Similarly, maternal and child care services have improved as DHS **2010** shows, due to the implementation of the National Road Map to Accelerate Reduction of Maternal, Newborn and Child Deaths in Tanzania ("One Plan") launched in 2008. Access to clean and safe drinking water in the country has been improving too, due to the implementation of the Water Sector Development Programme launched in 2007.

**48. Madam Speaker)** in order to improve good governance and accountability, the government, has consistently taken various measures including, among others, strengthening the legal sector by employing magistrates at primary courts, strengthening legal systems as well as raising public awareness about human rights issues and the participation in the African Peer Review Mechanism. The government continued also to

strengthen public financial management systems, including strengthening the capacities of Audit Offices at Ministries, Regional secretariats and Local Government Authorities.

## **FINANCIAL SECTOR**

49. *Madam Speaker*, the Government continued to implement various reforms in the financial sector to ensure that the sector effectively contributes to economic and social activities as well as economic growth. These reforms have resulted into impressive performance including, increased number of banks to 49 in April **2011** from 43 the previous year, increased number of simcards registered for banking to 21,184,808 in 2011 from 10,663,623 in 2010, and Microfinance institutions increased to 150 in **2011**.

50. *Madam Speaker*, the Government continued to extend credits through agricultural window at the Tanzania Investment Bank (TIB). By March 2012, a total of 81 loans worth shs. 22.9 billion were extended, out of which, 42 loans were extended to SACCOS and 32 loans to companies, and 7 loans to micro finance institutions. Credits extended to microfinancing institutions and SACCOS benefited rural small farmers.

51. *Madam speaker*) the Government continued with the implementation of the Cooperative Reforms Programme in order to strengthen and empower cooperatives to expand financial services and reach out, in particular to rural areas. Until 2011, the number of SACCOS has increased to 5,346 from 5,314 in 2010, while membership has grown by 6.7 percent, reaching 970,665 from 917, 889 in 2010. Shares, savings and deposits by members have also increased to shillings 399.0 billion in 2011 from shillings 236.8 billion in 2010. Credits extended to members increased too, reaching shillings 627.2 billion in 2011 from shillings 539.2 billion equivalent to an increase of 16.3 percent.

52. *Madam speaker*) credits to private sector increased to 23.3 percent compared to 21.9 percent in 2010. This increase goes hand in hand with the increase in domestic financial assets and fall in foreign financial assets in banks. The credits to private sector were distributed to various sectors, including personal loans 21.9 percent, commercial loans 19.9 percent, manufacturing 11.9 percent, agriculture 11.8 percent and transport and communication 7.9 percent.

53. *Madam Speaker*, in order to improve access to credits, the Government has recruited a consultant to advise in establishing a Credit Reference Bureau and Credit Reference Data bank in order to expand credit availability. The consultant has started with the installation of equipments and training of potential users. This is all aimed at improving the environment for availability of medium to long term credits for housing, agricultural development, and investment. Regulations for development financing banks have been prepared and gazzeted in Government *Gazette* of March 2012.

54. *Madam Speaker*, During 2011/12, the Government continued with reforms of the National Social Security systems by evaluating the funds investments, life of funds, as well as preparing guidelines for investments. The Government has also reviewed the acts for the Social Security Regulatory Authorities and social security acts for the purpose of strengthening supervision of the sector.

## **PUBLIC-PRIVATE PARTNERSHIP**

55. *Madam Speaker*, this august House passed the Public Private Partnership (PPP) Act No. 18 of 2010 so as to provide room for the private sector to invest in public infrastructures and operate them with a view to provide public services at reasonable cost, at the same time addressing peoples' economic and social needs. During the 2011/12 the government has established PPP desks in each public institution and has issued operational guidelines for the appraisal of PPP Projects. In addition, the government has identified pipeline projects that will be subjected to pre-feasibility appraisals with a view to identify the most suitable projects that can be implemented using the PPP arrangement.

56. *Madam Speaker*, the implementation of public - private partnership in our country is guided by two legislative instruments - the PPP Act No. 18 of 2010 and the Public Procurement Act (PPA) No. 6 of 2004 as amended in 2011. The later law was amended so as to incorporate provisions that provide guidance for public institutions to procure private investors who are willing to enter into partnership with the public institutions. The government is in the final stage of approving PPA Regulations whose issuance completes the legislative framework required to implement public-private partnerships in the country. The government will ensure that there is compliance with all legislative and regulatory requirements in approving and supervising PPP projects.

57. *Madam Speaker*, during the 2012/13 the government will conduct training and capacity building to all employees involved in implementing the PPP program. In addition, the government will select from the pipeline list, few PPP projects to be implemented as learning examples, The government will begin the process by carrying out pre-feasibility study of construction projects in road, railways, ports, airports, water, and office accommodation.

58. *Madam Speaker*, I would like to take this opportunity to encourage ministries, independent departments, local government authorities, executive agencies, and public corporations to seize this opportunity to enter into partnerships with the private sector in the construction of infrastructure projects in line with the legislative and regulatory framework.

## **NATIONAL DEBT**

**59. Madam Speaker,** given its commitment to the development of key infrastructure, the Government continues to raise domestic and external loans for financing of development projects. As a result by March 2012, National Debt Stock comprising of External and domestic debt reached Shillings 20,276.6 billion compared with Shilling 17,578.9 billion, at end March, 2011 equivalent to 15.4 percent increase. Out of the National Debt Stock, Shilling 15,306.9 billion is External debt stock and Domestic debt was Shilling 4,969.7 billion. The External debt stock comprised of public debt of Shilling 12,342.5 billion and the Private Debt amounting to Shilling 2,964 billion. The new loan resources mobilized from concessional and non-concessional sources for infrastructures development in the country and interest in arrears to Non- Paris Club Creditors which have not concluded bilateral agreements for debt relief are major attributes for the increase of External debt stock. During the period under reference, Public domestic debt stock increased by 10.5 percent from Shilling 4,496.5 billion as at March, 2011 to Shilling 4,969.7 billion as at March, 2012. The increase in domestic debt stocks is attributed to the rising need for new domestic loans to finance the prioritized development expenditures, issuance of the Treasury Bills and Bonds for liquidity management and developing the domestic financial Market.

**60. Madam Speaker,** considering the need for prudent management of Public Debt, in February, 2012 the Government conducted a Debt Sustainability Analysis (DSA) which includes guarantees issued to Ministries, Independent Departments and Agencies (MDAs), Parastatals and Public Enterprises. The results of DSA exercise indicate that, the Public debt is sustainable.

## **MANAGEMENT OF PARASTATAL ORGANIZATIONS**

**61. Madam Speaker,** in ensuring that Government Institutions, Agencies and Parastatals are properly discharging their obligations, the Government issued Circular No. 1 of year 2012 instructing Parent Ministries, Boards of Directors to enter into Performance Contracts, with effect from January 2012. Moreover, Management Audit was carried out in some Public Institutions and Parastatals in order to assess the compliance with rules and regulations, legislations; and various Directives; issued by the Government which include accountability and Good Governance, financial management and recruitment procedures. This exercise is continuous and is aimed at improving the operations of Parastatals and Public Institutions. Furthermore, the Government has verified 170 privatized Parastatals. Out of which, 41 were making profits, 66 making losses and

## **THE BUDGET FOR 2012/2013**

62. *Madam Speaker*, the 2012/2013 budget takes into account the priorities set in the Annual Development Plan of 2012/2013, National Strategy for Growth and Poverty Reduction phase two (MKUKUTA II), the Millennium Development Goals (MDGs) 2015, the CCM Election Manifesto 2010, and the public sector reform programmes. The goal is to realize the objectives of the Tanzania Development Vision 2025.

63. *Madam Speaker*, in line with these guiding frameworks, this budget takes into account challenges emanated from implementation of 2011/2012 budget. The challenges includes availability of reliable electricity supply; increase in world market oil prices; food shortages in some parts of the country; increase in prices of goods and services; late disbursement of local development funds due to bureaucratic procedures on accessing non concessional loans; the increase in accumulated domestic arrears particularly from contractors, suppliers and civil servants. The budget also takes into consideration world economic trends and the regional and international treaties and commitments. The Government will take measures to address the challenges.

## **OBJECTIVES AND TARGETS OF THE 2012/2013 BUDGET**

64. *Madam Speaker*, the focus of 2012/2013 budget is to achieve the following:

- (i) To increase real GDP growth rate of 6.8 percent in 2012 from 6.4 percent of 2011;
- (ii) To improve economic infrastructure, including electricity, roads, railways and ports;
- (iii) To increase access to financial services;
- (iv) To increase domestic revenues to 18 percent of GDP in 2012/2013 compared to the likely outturn of 16.9 percent in 2011/2012;
- (v) To continue with efforts to curb inflation to a single digit;
- (vi) To maintain a stable and market determined exchange rate;



(vii) To increase credit to private sector to 20 percent of GDP by end June 2013 in line with measures to curb inflation;

(viii) To maintain foreign exchange reserves to cover 4.5 months of imports of goods and services;

(ix) To strengthen Public and Private Partnership (PPP) arrangement with a view to widen opportunities for implementing development projects;

(x) To improve business environment for Small and Medium Enterprises;

(xi) To safeguard and sustain achievements realized in the social sector;

(xii) To strengthen good governance and accountability and;

(xiii) To develop the country's capability to endure economic and financial crisis and effective participation in regional and international arrangement.

## **BASIS OF THE GOVERNMENT BUDGET FOR 2012/2013**

65. *Madam Speaker*, to achieve the above mentioned objectives, the basis for the Government budget for 2012/2013 are as follows:

(i) To continue sustaining the stability and macroeconomic and social indicators;

(ii) Availability of reliable electricity and promote the use of natural gas;

(iii) Strengthened implementation of monetary and fiscal policies

(iv) To continue strengthening the relationship with development partners;

(v) To continue implementing Decentralization by Devolution policy;

(vi) To continue implementation of public sector reforms including strengthening public finance management; and

(vii) To continue to improve business environment and increase productivity and investment opportunities.

## **REVENUE POLICIES**

**66. Madam Speaker,** the Government will continue with its efforts to strengthen domestic revenue collections by taking various measures in the areas of tax and non-tax revenue; and through expansion of revenue base. Moreover, the Government will continue to strengthen revenue collection mechanisms as well as reducing tax exemption in order to finance to a larger extent the recurrent expenditure by domestic revenue.

**Revenue policies that will be considered in 2012/13 budget include:**

- i) To improve collection and administration of non-tax revenue by reviewing mechanism of issuance of receipts and licenses, as well as improving the retention rates by Ministries, Departments, and Governments Institutions;
- ii) To expand tax base through formalization of informal sector in order to capture into the tax net;
- iii) To continue with a review of legislation establishing Agencies/Public Institutions that collect revenues with the aim of increasing their respective contribution to the Consolidated Fund Service (CSF);
- iv) To continue reviewing various legislations granting tax exemptions with the aim of controlling and reducing them;
- v) To review the mechanism of collecting property tax in cities, municipalities, towns, districts and townships with a view to improve them;
- vi) To review sources of revenue and collection mechanism in the local Government Authorities with a view to increase revenue; and
- vii) To build capacity of the Ministry of Energy and Minerals, Tanzania Petroleum Development Corporation, Tanzania Revenue Authority and Tanzania Mineral Audit Agency (TMAA) in order to enhance their respective capabilities to administer revenue collections in the areas of minerals, gas and petroleum.

**MEASURES TO IMPROVE PRODUCTION AND SERVICES DELIVERY**

**67. Madam Speaker,** the Government has received recommendations from various stakeholders including Honourable Members of Parliament on the need to improve business environment in the fishing, manufacturing, agriculture, livestock keeping and tourism sectors. The planned measures include the following:

- i) To review the incentives granted to local industries which use local inputs including textile and edible oil industries;
- ii) To put in place better mechanism of identifying spares for machinery and plants exempted from taxes in order to remove inconveniences to importers;
- iii) To review tax rates applicable to agriculture and fishery sectors with a view to harmonize and reduce them;
- iv) To review the rationale and the applicable rates of Skills Development Levy and Motor Vehicle Licenses. In doing so the government aims at expanding tax, reducing tax burden to employers and expanding employment opportunities in the country. Moreover the review of motor vehicle licenses will take into account the motive behind such licenses; and
- v) To review the Value Added Tax (VAT) with the view to changing it to conform to international best practices.

68. *Madam Speaker*, the local Government Authorities are urged to raise their own source revenue collection by taking into consideration the available opportunities. Moreover, the Prime Minister's Office-Regional Administration and Local Government (PMO-RALG) in collaboration with German's for International Development Co-operation (GIZ) will finalize and install the Integrated Property Rating Information Management System (IPRIMS) in order to improve revenue collection from property tax. I urge all Honourable Members of Parliament and other leaders from different levels exert pressure to enable local Government Authorities to collect property tax and other revenues effectively. The aim is to increase their capacity to provide services and bring about sustainable development to citizens.

69. *Madam Speaker*, taking into consideration the revenue policies outlined above, the Government targets to collect domestic revenues (excluding LGS's own source) amounting to shillings 8,714.7 billion equivalent to 18 percent of (GDP). Out of this amount, shillings 7,080.1 billion is tax revenue and shillings 644.6 billion is non-tax revenue. Revenue from Local Government Authorities is projected at shillings 362.2 billion equivalent to 0.7 percent GDP.

## DOMESTIC BORROWING

70. **Madam Speaker**, the Government will continue with its arrangement to borrow from domestic market for financing development projects and paying for rollover of maturing Treasury Bills and Bonds. In 2012/13 budget, the Government intends to borrow shillings 1,632 billion from domestic market. Out of this amount, shillings 483.9 billion equivalent to 1 percent of GDP is for financing development projects and shillings 1,148.1 billion will be used to finance the rollover of maturing Treasury Bills and Bonds. The level of borrowing has taken into consideration macroeconomic indicators in order to avoid crowding out of private sector.

## **GRANTS AND NEW CONCESSIONAL BORROWING**

71. **Madam Speaker**, the Government will continue to collaborate with Development Partners to ensure that grants and concessional loans are timely disbursed for the implementation of the government budget. In 2012/2013, the Government is expecting to receive shillings 3,156.7 billion grants and concessional loans. Out of this amount, shillings 842 billion equivalents to US Dollar 495 million is GBS loans and grants while shillings 2,314.2 billion is project grants and loans including basket funds.

72. **Madam Speaker**, Development Partners continued to support the country's development agenda despite ramifications of the global economic crisis and natural calamities they had experienced. I wish therefore ,to recognize our Development Partners as follow: United Kingdom, Norway, Canada, United States of America, Netherlands, Belgium, China, Finland, France, Germany, Ireland, Japan, South Korea , Denmark, Spain, Sweden, Switzerland, India, Italy, World Bank, African Development Bank, European Union, Global Funds, International Monetary Fund (IMF), BADEA, Kuwait Fund, NODIC Fund, OPEC Fund, Saudi Fund and the United Nations Agencies. We very much thank them.

## **EXTERNAL NON-CONCESSIONAL BORROWING**

73. **Madam Speaker**, it is the Government's policy to solicit concessional loans from Multilateral Institutions and donor countries for financing development budget. Nevertheless, taking into account huge requirement of funds to develop infrastructure projects in 2012/2013, the government expects to borrow external non concessional loans amounting to shillings 1,254.1 billion equivalent to USD Dollar 746 million. These funds will be used to finance various development

projects as identified in the 2012/2013 Annual Development Plan, which include Government counterpart fund for construction of gas pipeline from Lower Ruvu to Dar es Salaam and road construction projects. The decision to continue borrowing on concessional and non-concessional terms will take into consideration the country's debt sustainability.

## **EXPENDITURE POLICIES**

**74. Madam Speaker,** in the year 2012/2013, expenditure policies will be based on the following:

- 1) Expenditure will be in line with revenues collections (cash budget);
- 11) To maintain budget deficit after grants not exceeding 5.5 percent of GDP;
- 111) Votes to align expenditure to ceilings as passed by the Parliament;
- 1V) Accounting Officers continue to comply with Public Finance Act and Public Procurement Act; and
- V) The Government to continue compiling all domestic arrears for the purpose of verification and arrangement for their payment.

## **RECURRENT EXPENDITURE**

**75. Madam Speaker,** recurrent expenditure policies for the year 2012/13 are aimed at, among others to finance the payments of: salaries, domestic and external debts services, improvement of economic and; higher education students loans; primary and secondary schools examinations; procurement and distribution of medicines; requirement of Constitution Review Commission; maintenance of Government assets; purchase of food for national reserve; recurrent expenditure component for completed projects; as well as to continue with payment to various claims raised by employees and suppliers.

**76. Madam Speaker,** in order to address the challenges of accessing to long-term loans, low agricultural productivity and unemployment, the Government has set aside funds for the following areas: shillings 30 billion for the Tanzania Investment Bank; shillings 40 billion for the Agricultural Development Bank thereby increasing its capital to shillings 7.5 billion has been allocated to revive the compulsory National Service, whereby in the first phase 5,000 youths are expected

to be recruited. In addition, the Government has allocated a total of shillings 70.7 billion for recurrent and development expenditure for newly established Regions, Districts and Councils.

## **DEVELOPMENT EXPENDITURE**

77. *Madam Speaker*, during the FY 2012/13, the Government will implement development expenditure policies based on priorities identified in the Development Plan for FY 2012/1332. The proposed budget for FY 2012/13 has considered the following priority areas:

78. *Madam Speaker*, in the 2011 Economic Survey and National Development Plan for FY 2012/13 speech, the Minister of State, President's Office, Public Relations and Coordination, Hon. Stephen Masatu Wasira, outlined the national strategic areas for economic growth. This budget takes into account such priorities:

### a) *Infrastructure*

i) **electricity**-emphasis will be placed on the availability of electricity by increasing generation, transmission and distribution capacities whereby a total of Tshs498.9 billion has been allocated for this purpose. Further, the Government will implement the gas pipeline construction project from Mtwara to Dar es Salaam using a loan amounting to USD 1,225.3 million from the Exim Bank of China. The loan will be managed by the Tanzania Petroleum Development Corporation (TPDC).

ii) **transportation**-strengthening the central railway line which involves renovation of the train engines and wagons. On roads, priority projects include roads that will open up economic opportunities. On air and water transportation, projects to be implemented include rehabilitation of airports and development of the port at Lake Tanganyika. A total of Tshs 1,382.9 billion has been allocated for this area.

iii) **clean and safe water**- increasing the availability of clean water and safe water in urban and rural areas. Tshs 568.8 billion has been allocated for this purpose.

iv) **Information and Communications Technology(ICT)**- strengthening communications through ICT so as to improve access to various services including information access to domestic and external market, revenue collection, health services, education, financial services, etc. A total of Tshs 4 billion has been allocated in this area.

#### ***b) Agriculture, Fisheries and Livestock***

79. ***Madam speaker***, in collaboration with the private sector, the government will invest in rice and sugarcane farming in the major valleys of Wami, Ruvu, Kilombero and Malagarasi as well as increasing productivity and value; transform the agricultural system and promote agro-forestry. This includes effective development of fisheries and livestock farming by improving the investment climate; by so doing, it will reduce income poverty.

80. ***Madam speakers***, in order to increase the production of food crops and ensuring food security, the government will strengthen the implementation of Kilimo Kwanza policy by ensuring adherence of all its pillars; agricultural inputs reaches the intended on time, agricultural extension officers have their own farms as examples to educate farmers on modern farming methods; put emphasis on irrigation farming; improve and strengthen markets for crops through Mixed crops Board which has started its operations; and regions to continue allocating land and villages surveying and formalizing their land for local and foreign investors. TShs 192.2 billion has been allocated for this purpose.

#### ***c) Industrial development***

81. ***Madam speakers***, the government intends to develop industries that utilize domestically produced raw materials, industries that add value to minerals, large cement factories, and electronic and Information and Communications Technology

(ICT) as well as improving the business environment and to allocate specific areas for investments in urban and rural areas and promote partnership between public and private sectors. This action goes hand in hand with improving and strengthening small enterprises in the country. A total of TShs 128.4 billion has been allocated in this area.

d) ***Human resources and social services development***

82. ***Madam speaker***, during the fiscal year 2012/13, the government plans to improve the quality of education at all levels, particularly in the areas of research, vocational education, health, science; and special skills on mining, gas, uranium, iron and oil. This action involves laboratories renovation and availability of laboratory facilities. TShs 84.1 billion has been allocated in this area.

e) ***Tourism***

83. ***Madam speaker***, the government will continue to improve services delivery in this area, including the promotion of tourism and improvement of the tourist environment as well as providing tourism training, identifying new tourism areas and enhancing tourism colleges.

88. ***Madam Speaker***, the government will continue to put emphasis on audit of revenue and expenditure of public funds in Ministries, Institutions, Agencies, Regions and Local Government Authorities in order to confirm if revenue planned to be collected is available and also funds transferred from the treasury are reaching the Regions and Councils and finance approved activities. The government will improve control and management of public funds that are collected or transferred to Regions and Councils.

f) **Financial services**

84. **Madam Speaker**, the Government will continue to strengthen financial services particularly the savings and credit systems such as Savings and Credit Cooperative Societies and Community Banks so as to enable people to access credits for business and productive activities. TShs.2.6 billion has been allocated to enhance the capital of Tanzania Women's bank, Small Enterprises Loan facility



(SELF) and the Economic Empowerment Fund. Further the Ministry of Finance is promoting the Development of micro finance institutions in the country, in order to effectively perform this function the Government will elevate the current financial services section in the Policy Analysis Department to full fledged Department.

## **PUBLIC FINANCIAL MANAGEMENT**

85. **Madam Speaker**, the Government will continue to implement the fourth phase of the Public Financial Management Reform Programme and ensure adherence to the Public Finance Act and Public Procurement Act in order to enhance transparency and accountability in the public expenditure. Areas that the Programme will focus include: to finalize upgrading of Integrated Financial management System (IFMS) in order to control use of finances in the Central Government and Local Government Authorities; training on inter-bank settlement system for the Parliament Office employees, Regional Secretariat, Co-operative Department, Prime Minister's Office-Regional Administration and Local Government and Sub-Treasuries in all regions. In addition the Government will continue facilitate training on preparation of accounts by using International Accounting Standards in order to increase transparency in public financial expenditure; strengthen capacity of the Government's Internal Auditor Department in order to ensure use of public finance procedures and regulations are followed properly; and strengthen capacity for the Central Government, Regions and Council to prepare budget plans, revenue collection, resource management, improvement of communication and submission of budget execution reports.

86. **Madam Speaker**, with regards to fund transfers to the councils, the Government will continue to improve transfer procedure and provide timely information concerning expenditure of transferred funds. In addition, all un-spent funds during previous fiscal year will be reported to the Parliamentary committees and Local Councillor Meetings in order to enhance transparency and accountability to the general public.

87. **Madam Speaker**, in 2012/2013 fiscal year, the Government will conduct verification exercises for employees in Ministries, Departments, and all Regions and Council Secretariats in order to eliminate ghost workers from the Government employees' payroll. In addition, employing authorities and accounting officers are

instructed to stop salary payments to persons that have resigned or been terminated, retired, died or on leave without pay in order to control loss of public funds.

88. *Madam Speaker*, the government will continue to put emphasis on audit of revenue and expenditure of public funds in Ministries, Institutions, Agencies, Regions and Local Government Authorities in order to confirm if revenue planned to be collected is available and also funds transferred from the treasury are reaching the Regions and Councils and finance approved activities. The government will improve control and management of public funds that are collected or transferred to Regions and Councils

## **MANAGEMENT OF PUBLIC ENTERPRISES**

89. *Madam Speaker*, in addressing the Public enterprises management challenges, the Government continues to strengthen the Office of the Treasury Registrar by reviewing the Treasury registrar ordinance (1958) and Treasury Registrar Powers and Functions (2000) Cap. 370 as amended in year 2010 with a view to consolidate the two into one Law. This action aims to give more legal powers to the Treasury Registrar Office to closely monitor the performance of Public Enterprises in order to increase their productivity.

## **CURBING INFLATION**

90. *Madam Speaker*, our economy is facing several challenges including high inflation rates which declined from 19.8 percent in December, 2011 to 18.7 percent in April, 2012. The main causes of high inflation rates are high electricity tariff, high prices of oil and food –especially rice and sugar prices. For example, during April, 2012 food contributed 24.7 percent while electricity and fuel contributed

24.9 percent of inflation. Core inflation, which includes food and energy prices, is still at single digit of 8.8 percent. Therefore Government efforts will be directed towards controlling the rising food and energy prices.

91. *Madam Speaker*, immediate measures that the Government will take include issuance of sugar and rice imports permits and continue to strengthen the National Food Reserve. In addition, the Government will invest in rice and sugarcane farming in the great valleys of Kilombero, Wami, Kagera and Malagarasi together with agricultural irrigation schemes. Other measures include continuing to strengthen transport and market infrastructure, agricultural marketing system in high food production areas especially the Southern highlands and boarder regions. In respect to electricity, the Government will continue to develop alternative sources of energy such as natural gas, solar energy, wind and sugarcane energy in order to reduce use of fuel as source of energy.

## **EXPANDING EMPLOYMENT OPPORTUNITIES**

92. **Madam speaker**, in order to increase youth employment opportunities, the Government will continue to widen access to financial services including establishment of Agricultural Bank and increasing the capital of the Tanzania Investment Bank, Tanzania Women Bank, Tanzania Postal Bank and Twiga Bancorp. Other measures for increasing employment opportunities include constructing and upgrading of roads, electricity, and agriculture and communication infrastructure networks. Further, the private sector will be encouraged to utilize private sector development window offered by the African Development Bank. The Government will also employ 71,756 in education, health, agriculture and other sectors.

## **REFORM OF THE TAX STRUCTURE, FEES, LEVIES AND OTHER REVENUE MEASURES.**

93. **Madam speaker**, in recent years, the government has made significant reforms in the tax structure aiming at widening the tax base and maximizing domestic revenue. The reforms include the amendment of tax laws, regulations and improvement of tax administration procedures. These measures have contributed to the improvement in collection of tax and non tax revenues. However, despite these achievements, there remains a challenge of increasing domestic revenues so as to reduce budgetary dependence of foreign aid. In that respect, the Government will continue to undertake policy and administrative measures to improve revenue collection and tax administration.

94. **Madam speakers**, To maintain improvement of the tax structure, I propose to make various reforms in the tax laws as follows:-

- (a) The Value Added Tax Act, CAP 148;
- (b) The Income Tax Act, CAP 332;
- (c) The Excise (Management & Tariff) Act, CAP 147;
- (d) The Export Levy Act, Cap 196;
- (e) The Gaming Act, CAP 40;
- (f) The Motor Vehicle Registration and Transfer Act, CAP 124;
- (g) The Airport Departure Service Charges Act, CAP.365;
- (h) Motor-vehicle Exemptions through Tax Laws and Government Notices (GNs)
- (i) Minor Amendments in various Tax Laws and Financial Management Laws;
- (j) Amendments of the Fees and Levies charged by Ministries, Regions and Independent Departments
- (k) The East African Community Customs Management Act, 2004

## **A. The Value Added Tax Act, CAP 148**

95. **Madam speaker**, I propose to make amendments in the Value Added Tax Act, CAP 148 as follows:-

(i) Introduce Value Added Tax rate of 10 percent for selected VAT relieved beneficiaries enjoying special relief under the third schedule of the Value Added Tax Act to pay VAT for their taxable supplies requirements at a reduced rate of 10 percent instead of 18 percent and will affect among others, private companies, individuals and TIC Certificate holders except those who are enjoying exemptions under the existing agreements. Furthermore, it will affect Non Governmental organizations except those which are providing donations such as food supplies and medicaments to children and orphanage care centres and schools.

(ii) Amend item 19 of the second schedule to the VAT Act in order to include “Electronic Fiscal Devices” in the list of exempt items. The measure intends to make the product affordable to the business community and encourage its use for the improvement of compliance.

(iii) Exempt Value Added Tax on various equipment (Compressed Natural Gas and Piped Natural Gas) that will be used for storage, transportation, and distribution of natural gas. This measure is intended to promote the usage of natural gas in various sectors of the economy including motor vehicles, domestic and industrial use. The measure is also expected to preserve forests, reduce environmental degradation and encourage production of gas cookers in the country.

96. **Madam Speaker**, the gas related equipments for which the exemption is sought are as follows:-

- i. CNG vehicles conversion kits;
- ii. High pressure vessels (CNG and LPG cylinders);

- iii. Natural gas compression plants equipments;
- iv. Natural gas pipes (Transportation and Distribution pipes);
- v. CNG storage cascades;
- vi. CNG transportation trailers;
- vii. Natural gas metering equipments;
- viii. Pipeline fittings and valves;
- ix. CNG refuelling/filling equipment; and
- x. PNG/CNG accessories
- xi. Gas Receiving Unit
- xii. Condensate Stabiliser
- xiii. Flare Gas System
- xiv. Air and Nitrogen System
- xv. Condensate Tanks and Loading Facility
- xvi. System piping on pipe rack
- xvii. Instrumentation
- xviii. Gas Cooker which is specifically designed for gas

The VAT measures together will increase Government revenue by TSh. **22,565.1 million.**

### **B. The Income Tax Act, CAP 332**

97. *Madam Speaker*, I propose to make amendments in the Income Tax Act, as follows:-

- i. Introduce a NIL band for turnover below TSh. 3,000,000 to exempt low-income earners. This measure is aimed at protecting the government revenue and ensures that, the individuals whose turnover is below TSh. 3,000,000 are not taxed under the presumptive scheme. Currently, traders whose turnover does not exceed TSh. 3,000,000 pay TSh. 35,000

The Current and proposed rates are as follows:-

#### **Current rates**

	Turnover	Tax payable where records are incomplete	Tax payable where records kept are complete

(i)	Where turnover does not exceed Shs. 3,000,000/=	Shs. 35,000/=	1.1% of the annual turnover
(ii)	Where turnover exceeds Shs. 3,000,000/= but does not exceed Shs. 7,000,000/=	Shs. 95,000/=	Shs. 33,000/= plus 1.3% of the turnover in excess of Shs.3,000,000/=
(iii)	Where turnover exceeds Shs. 7,000,000/= but does not exceed Shs. 14,000,000/=	Shs. 291,000/=	Shs. 85,000/= plus 2.5% of the turnover in excess of Shs. 7,000,000/=
(iv)	Where turnover exceeds Shs. 14,000,000/= but does not exceed Shs. 20,000,000/=	Shs. 520,000/=	Shs. 260,000/= plus 3.3% of the turnover in excess of Shs. 14,000,000/=

### Proposed rates

	Turnover	Tax payable where records are incomplete	Tax payable where records kept are complete
(i)	Where turnover does not exceed Shs 3,000,000/=	Zero per cent (0%)	Zero per cent (0%)
(ii)	Where turnover exceeds Shs 3,000,000/= but does not exceed Shs 7,500,000/=	Shs 100,000/=	2% of the turnover in excess of Shs 3,000,000/=
(iii)	Where turnover exceeds Shs 7,500,000/= but does not exceed Shs 11,500,000/=	Shs. 212,000/=	Shs. 90,000/= plus 2.5% of the turnover in excess of Shs. 7,500,000/=
(iv)	Where turnover exceeds Shs 11,500,000/= but does not exceed Shs 16,000,000/=	Shs. 364,000/=	Shs. 190,000/= plus 3.0% in excess of Shs 11,500,000/=
(v)	Where turnover exceeds	Shs. 575,000/=	Shs. 325,000/=

	Shs 16,000,000/= but does not exceed Shs 20,000,000/=		plus 3.5% in excess of Shs 16,000,000/=
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- ii. Produce a 10 per cent Withholding tax on interest income earned by the non-residents from banks as is the case with residents. The proposed measure is intended to create a fair playing field to all taxpayers.
- iii. Abolish exemption currently provided under “sec. 54(2) of the Income Tax Act” to a resident corporation which holds 25 per cent shares or more so that dividends of the corporation will now be taxed at a reduced rate of 5 per cent. This measure is aimed at creating fairness and equity to all dividend earners.
- iv. Impose capital gain tax on sale of shares relating to local company by the parent/offshore company. This measure is intended to control tax avoidance malpractice.
- v. Adjust PAYE threshold as a result of enhancement of salary scales from TShs 135,000 to TShs 170,000.
- vi. Introduce exemption of Income Tax to the Dar es Salaam Stock Exchange (DSE);
- vii. Exempt holders of gaming licenses from paying Income Tax on their incomes in respect of which income tax had already been paid under the Gaming Act Cap.41. The aim is to avoid double payment from license holders who have already paid that tax.
- viii. Exempt withholding tax chargeable by foreign banks on interests payable to strategic investors. This measure is expected to encourage investment in the country.

The Income Tax measures will reduce Government revenue by **TShs. 105,672.3 million.**

### **C. The Excise (Management & Tariff) Act, CAP 147**

98. *Madam Speaker*, I propose to make amendments in the Excise (Management & Tariff) Act as follows:-



- i. Abolish Excise Duty on HFO. This measure is intended to reduce the cost of production, promote industrial growth and bring fairness among the business community in the East African Community.
- ii. Introduce Excise Duty on Music and Film Products (DVD, VCD, CD, Video Tape and Audio Tape e.t.c). This measure is aimed at assisting operators in this subsector to formalise their business, prevent piracy of the artistic works and enable them to benefit from their works. The Tanzania Revenue Authority will issue stamps for the products in order to control production and earn revenue to both the Government and operators. This measure will become operational from 1<sup>st</sup> January, 2013 to allow time for the review of the relevant laws and regulations.
- iii. Abolish exemption of Excise Duty on imported non-utility motor vehicles for all beneficiaries. However, this measure will not affect those who are currently enjoying Value Added Tax exemptions like mining companies holding agreements with the Government that provide tax exemption, Diplomats and Diplomatic Missions, Religious organisations and Donor Funded Projects.
- iv. In order to protect local industries producing fruit juices against unfair competition from imported juices, I propose to introduce excise duty of Shs 83 per litre on imported fruit juices while locally produced fruit juices will attract excise duty of Shs 8 per litre.
- v. Amend the fuel levy exemption that was granted during the 2011/12 budget for the fuel to be used by the oil and gas explorers to introduce excise duty as it was intended.
- vi. I propose to adjust the specific duty structure on soft drinks, beers, spirits, cigarettes and wine as follows:-
  - a) Carbonated soft drinks from Shs. 69 per litre to Shs. 83 per litre, being an increase of Shs. 14 per litre;
  - b) Wine with domestic grapes content exceeding 75 per cent, from Shs 145 to Shs. 420 per litre; being an increase of Shs. 275 per litre;
  - c) Wine produced with more than 25% imported grapes from Shs 1,345 per litre to Shs 1,614 per litre; being an increase of Shs 269 per litre;
  - d) Spirits from Shs. 1,993 per litre to Shs. 2,392 per litre; being an increase of Shs 399 per litre.

- e) Beer made from local un-malted cereals from Shs 248 per litre to Shs 310 per litre; being an increase of Shs 62 per litre; and
  - f) Other beers from Shs 420 per litre to Shs 525 per litre; being an increase of Shs 105 per litre.
- vii. The Excise Duty rates on cigarettes are amended as follows:-
- a) Cigarettes without filter tip and containing domestic tobacco more than 75% from Shs 6,820 to Shs 8,210 per thousand cigarettes; equivalent to an increase of Shs 1,390 per thousand cigarettes or Shs 1.40 per cigarette;
  - b) Cigarettes with filter tip and containing domestic tobacco more than 75% from Shs 16,114 to Shs 19,410 per mil; equivalent to an increase of Shs 3,296 or Shs 3.30 per cigarette
  - c) Other cigarettes not mentioned in (a) and (b) from Shs 29,264 to Shs 35,117 per mil; being an increase of Shs 5,853 per thousand cigarettes or Shs 5.8 per cigarette;
  - d) Cut rag or cut filler from Shs 14,780 per kilogram to Shs 17,736 per kilogram; being an increase of Shs 2,956 per kilogram; and
  - e) The excise duty on “cigar” remains at 30 per cent.
- viii. Impose Excise Duty on Natural Gas for industrial use at the rate of Shs 0.35 per cubic feet.
- ix. Increase Excise Duty on Airtime from 10 per cent to 12 per cent.

**The excise duty measures together are expected to increase Government revenue by Shs. 144,054.9 million.**

#### **D. The Export Levy Act, Cap 196**

**99. Madam Speaker,** I propose to make amendments in the Export Levy Act by increasing an export duty on raw hides from 40 per cent or Shillings 400 per kilogram to 90 per cent or Shillings 900 per each kilogram, whichever is greater. This measure is intended to promote local processing of hides and skins as well as value addition to our exports. The measure will also increase employment and earn revenue to the Government.

**The Export Levy measures are expected to increase Government revenue by Tshs. 26,431.8 million.**

**E. The Gaming Act, Chapter 41;**

100. *Madam Speaker*, I propose to make amendments in the Gaming Act as follows:-

- (i) Increase Gaming Tax for Casino from shillings 13 per cent of gross gaming revenue to 15 per cent of gross gaming revenue;
- (ii) Introduce gaming tax on sports betting at a rate of 6 per cent of the total stakes.
- (iii) Introduce gaming tax on “SMS Lotteries” at a rate of 43 per cent.
- (iv) Introduce gaming tax of 15 per cent on internet Casino.
- (v) Establish clause in the Game of chance Act which will explicitly state that “Gaming Tax shall be a final tax”

**The measure is expected to increase the Government revenue by Tshs. 6,360 million**

**F. The Motor Vehicle Registration and Transfer tax Act, CAP 124**

101. *Madam Speaker*, I propose to make amendments in the Motor Vehicle Registration and Transfer Tax Act, as follows:

Introduce personalised plate numbers for shillings 5,000,000 for three years. The measure intends to generate more revenue to the government.

**This measure is expected to increase the Government revenue by Tsh. 50 million.**

**G. The Airport Departure Service Charges Act, CAP 365**

102. *Madam Speaker*, I propose to make amendments in the Airport Departure Service Charges Act, by increasing Airport Service Charges from the current rate of United States Dollar 30 to United States Dollars 40 for passengers travelling outside the country and from Shillings 5,000 to shillings 10,000 for local travel passengers.

**The measure is expected to increase the Government revenue by shillings 11,597.7 millions.**

103. *Madam Speaker*, I propose to make amendments in the law that grants motor vehicle exemptions to various beneficiaries through Government Notices so that importation motor vehicles aged more than 8 years from the year of manufacture will now be subjected to the excise duty of 20 percent. The measure is intended to discourage importation of obsolete vehicles and preserve/protect environment.

#### **1. Minor Amendments in various Tax Laws and Financial Management Laws**

104. *Madam Speaker*, I further propose to make minor amendments to various tax laws with a view to simplify revenue collection.

105. *Madam Speaker*, I propose to amend the East African Development Bank (EADB) Act, CAP.231 with a view to **firstly**, to provide immunity status to the properties owned by the Bank including houses, deposits, monies and bank account against legal proceedings, court decisions and nationalizations/acquisitions acts. **Secondly** to give it corporate status as it is with the International Monetary Fund, the World Bank and Africa Development Bank to enable it to be afforded priority whenever crises occur in financial market. **Thirdly**, to empower the Minister for Finance to implement the decisions of the EADB's governing board, by amending the schedule to this Act through the Government Notice and subsequently inform the Parliament. **Fourthly**, define the bank's properties as including its houses financial deposits entrusted to EADB for supervision.

#### **J. Amendments of the Fees and Levies charged by Ministries Regions and Independent Departments**

106. *Madam Speaker*, I recommend amendment of rates of fees and penalties charged by Ministries Regions and Independent Departments in order to rationalize with the current level of economic growth.

## **K. The East African Community Customs Management Act, 2004**

107. **Madam Speaker**, During the Pre-budget consultations held in Kampala, Uganda on 18 May, 2012, the Ministers for Finance from EAC Partner States proposed and agreed to make amendments and changes in the EAC Customs Management Act, 2004 (EAC CMA 2004) and Common External Tariff (CET) for the Financial Year 2012/13. The main objective of the proposed changes is to enhance industrial production, improve transportation, health services, livestock development and communication sectors.

108. **Madam Speaker**, the changes in the Common External Tariff (CET) which were recommended and agreed by the Ministers for Finance are as follows:

(i) Extended Extend the stay of application of CET rate of 35 percent on Wheat grain under HS Code 1001.90.20 and HS Code 1001.90.90 and apply the CET rate of 0 per cent for the period of one year. This measure is intended to reduce cost of relating to the importation of wheat grain in the country as local production capacity does not satisfy the demand.

(ii) Increase the CET rate on galvanized wire of HS Code 7217.20.00 from 0 percent to 10 per cent. The measure is intended to rationalize with the tariff structure which is based on the degree of processing because galvanized wire is a product of the hot rolled steel wire rods under HS Code 7213.20.00 which attracts the CET rate of 0 percent.

(iii) Split the tariff line under HS Code 2106.90.91 in order to grant exemption of import duty to food supplements and mineral premix used in fortification of food supplements for feeding infants. The measure is intended to encourage processing of these food products in the region, and make them affordable with a view to fight malnutrition.

(iv) Reduce the CET rate on Set Top Boxes from 25 per cent to 0 percent under the HS Code 8528.71.0. The measure is intended to facilitate the smooth transition of the EAC Partner States to move from analog to digital technology by December 2015.

(v) Reduce the CET rate on electricity under HS Code 2716.00.00 from 10 per cent to 0 percent. The measure is intended to the cost of importing electricity into the East African Community Partner States.

(vi) Reduce the CET rate on inner glass flask used in thermos under HS Code 7020.00.90 from 25 percent. The measure is intended to encourage assembling of thermos in the country and these products are not manufactured in the region.

(vii) Split the tariff line under HS Code 8523.80.00 in order to apply the CET rate of 0 percent on software instead of 25 percent. The measure is intended to encourage development of ICT in the region and contribute to the economic growth.

(viii) Grant duty remission to soap manufacturers using Palm Stearin, RDB under HS Code 1511.90.40 by charging a duty rate of 0 percent instead of 10 percent. This measure is intended to promote growth stand-alone soap manufacturing industries by reducing cost relating to the importation of Palm Stearin RDB which is the main raw material in manufacturing of soap. The measure will also make soap more competitive in the local market.

(ix) Grant duty remission to soap manufacturers using LABSA as raw materials from 10 percent to 0 percent under HS Code 3402.11.00; HS Code 3402.12.00; and HS Code 3402.19.00 for the period of one year. The measure is intended to encouraged growth and production of soap manufacturing especially to small industries producing soaps in the country.

(x) Reduce the CET rate from 10 percent to 0 percent on cathodes and selections of cathodes under HS Code 7403.11.00.

(xi) Continue applying the CET rate of 25 percent instead of 35 percent on cement under HS Code 2523.90.00 for the period of one year.

(xii) Grant duty remission to lubricants producers using castor oil and its fractions under HS Code 1515.30.00 as raw material from the CET rate of 10 percent to 0 percent.

(xiii) Split HS CODE 7308.90.90 to provide for road guards rails and to apply the CET rate of 10 percent instead of 25 percent. The measure is intended to supplement local demand as local production capacity is still insufficient to meet the demand the growing demand of the products.

109. **Madam Speaker**, the Ministers for Finance also agreed to make amendments in the EAC Customs Management Act, 2004 as follows: -

- (i) Amend paragraph 30 (b) of the Fifth Schedule Part B in order to provide exemption of import duty to machinery and spare parts used in mining activities. The exemption should not include spare parts for motor vehicles that will be imported by the mining companies.
- (ii) Amend paragraph 22 (a) of the Fifth Schedule Part B of the EAC CMA to include "refrigerated trailer". Refrigerated Trailers should be accorded the same treatment as refrigerated trucks which are exempt from import duty to encourage distribution of fresh products like meat and milks.
- (iii) Grant duty remission to producers/manufactures of medical diagnostic kits. The inputs for use in the manufacture of medical diagnostic Kits attracts import duty while the finished Kits are exempted from import duty under the 5<sup>th</sup> Schedule of EAC CMA 2004.
- (iv) Amend Part B of the 5<sup>th</sup> Schedule to add beekeeping equipment in order to grant exemption of import duty to honey refiners, honey strainers, honey pumps, hive tools, queen rearing equipment and protective gears. The measure is intended to encourage growth of beekeeping industry in the country.

- (v) Continue granting exemption of import duty to Armed Forces Canteen Organization for the period of one year.
- (vi) Amend the EAC CMA 2004 to provide duty remission to producers of nutritious food/products for feeding infants facing malnutrition and persons suffering from HIV/AIDS in the country. The measure is intended to ensure availability of these products through encouraging local production.

110. **Madam Speaker**, I propose to make further amendments in various tax laws as follows: -

- (i) Abolish of Import duty exemption on all non-utility motor vehicles with 3000cc and above for all beneficiaries. However, this measure will not affect Donor Funded Projects currently enjoying exemptions under the existing Agreements with the Government, Diplomats and Diplomatic Missions.
- (ii) Reduce tax exemptions originally granted to goods known as "Deemed capital goods" from 100 percent to 90 percent. This means an investor shall be obliged to pay 10 percent of the due tax.

(iii)

The import duty measures together will reduce Government revenue by Thsh.12, 805 million.

111. **Madam Speaker**, All these tax reform measures have taken into account the government's objective to improve economic growth and increase revenue collections so as to eventually reduce budgetary dependence on aid.



In order to implement the Government objective, the revenue measures are aimed at gradually reducing tax exemptions to 1 percent of the Gross Domestic Product, as it is the case with the other EAC Partner States.

#### **L. Effective Date for Implementation of New Revenue Measures.**

112. **Madam Speaker**, unless stated otherwise, the new revenue measures shall become effective on 1st July 2012.

#### **V. The Structure of 2012/13 Budget**

##### **V. The Structure of 2012/13 Budget**

113. **Madam Speaker**, consistent with macroeconomic and fiscal policy objectives, the Government project to raise shillings 15,119.6 billion in 2012/13 fiscal year.

Out of this amount shillings 8,714.8 billion are tax and non-tax revenue which is equivalent to 18 percent of GDP. In addition, Local Government own revenue sources are projected at shillings 362.2, equivalent to 0.7 percent of GDP.

114. **Madam Speaker**, during the fiscal year 2012/13, Development Partners will continue to support the Government budget in the form of grants and concessional loans amounting to shillings 3,156.7. Out of this amount, shillings 842.5 billion is General Budget Support and shillings 2,314.2 billion are grants and loans for development projects, including basket funds and Millennium Challenge Account funds.

115. **Madam Speaker**, the Government plans to borrow shillings 2,886.1 billion from both domestic and external sources to bridge the financing gap. Out of this

amount, shillings 1,148.1 billion will be for rolling over of maturing Government securities, shillings 483.9 billion equal to 1 percent of GDP and shillings 1,254.1 billion will be raised from non concessional loan.

116. *Madam Speaker*, during the financial year 2012/13, the Government plans to spend shillings 15,119.6 billion for both recurrent and development expenditure. Out of the total amount, shillings 10,591.8 billion is located for recurrent expenditure including shillings 3,781.1 billion for wages and salaries for Government Ministries, Departments and Agencies employees; while shillings 2,745.1 billion is allocated for Consolidated Funds Service (CFS). On the other hand, shillings 4,527.8 billion is allocated for development expenditure. Out of this amount, shillings 2,213.6 billion is from domestic sources and shillings 2,314.2 billion will be raised from external sources.

117. *Madam Speaker*, the summary of the budget frame for 2012/2013 is as shown in the table below.

Revenue		Shillings Million
<b>A.</b>	<b>Domestic Revenue</b>	<b>8,714,671</b>
	(i) Tax Revenue (TRA)	8,070,088
	(ii) Non Tax Revenue	644,582
<b>B.</b>	<b>LGAs own Source</b>	<b>362,206</b>
<b>C.</b>	<b>General Budget Support</b>	<b>842,487</b>
<b>D.</b>	<b>Foreign Loans and Grants</b>	
	<b>Including (MCA (T))</b>	<b>2,314,231</b>

<b>E.</b>	<b>Domestic Borrowing</b>	<b>1,631,957</b>
<b>F.</b>	<b>Non-Concessional Borrowing</b>	<b>1,254,092</b>
	<b>TOTAL REVENUE</b>	<b>15,119,644</b>

**Expenditure**

<b>G.</b>	<b>Recurrent Expenditure</b>	<b>10,591,805</b>
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(i) Consolidated Financial

Services	2,745,056
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(ii) Wages and Salaries	3,781,100
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(iii) Other charges	4,065,649
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Ministries

3,311,399

Regions

49,701

LGAs

704,549

<b>H.</b>	<b>Development Expenditure</b>	<b>4,527,839</b>
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(i) Local	2,213,608
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(ii) Foreign	2,314,231
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	<b>TOTAL EXPENDITURE</b>	<b>15,119,644</b>
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**Conclusion**

118. *Madam Speaker*, through this budget, the government is set to implement the 2012/2013 budget Development Plan, which directs investment of national

resources in few priority areas with a view to accelerate economic growth and reduction of poverty. The government will continue to encourage the private sector to invest in priority areas. In addition, every citizen is called upon to participate effectively in the utilization of available opportunities by providing services and engaging in productive activities in order to increase income.

119. *Madam Speaker*, successful implementation of the 2012/2013 budget is predicated upon high degree of discipline by Ministries, Departments, Agencies and Local Authorities in revenue collection and use of public funds. All unproductive and unnecessary expenditures should be avoided. Private sector has high potential to contribute to economic growth. It is therefore important for the Ministries, Departments, Agencies and Local Authorities to give opportunities to the private sector to contribute effectively to growth of our National economy.

120. *Madam Speaker*, the 2012/2013 budget Session is being held few months before we carry out the population and housing census; scheduled for 26 August 2012. The slogan for this year's census is "*Census for Development, Get prepare to be counted*". I wish to encourage Honorable Members of Parliament and leaders at all levels to sensitize the public to participate in this important exercise whose results are important for providing statistics that would enable the government to prepare development plans reflective of the needs of the people for effective planning.

121. *Madam Speaker*, I would like to take this opportunity to thank voters in Kalenga constituency for electing me as their Member of Parliament and for the cooperation they are extending to me. I promise to continue working with them to bring about development to our constituency. Lastly, I would like to thank my lovely wife and family for supporting me as I continue carrying out my new responsibilities.

122. *Madam Speaker*, I beg to move.